

## The inflationary risk is emerging again

In September, the European Commission's economic sentiment indicator fell to its lowest level of the year in Spain. This reflects a slowdown in activity which, according to our forecasts, will result in a slowdown in growth to 0.3% q/q in Q3 and 0.2% q/q in Q4. Inflation is also regaining ground and is again weighing on household confidence, as is the modest deterioration in the unemployment expectations index. It should be noted that the outlook for price developments differs quite significantly depending on the sector, according to the European Commission's survey: it indicates a new pullback in price pressures in construction (-1.9 pts) and industry (-1.6 pts, the lowest since January 2021), while an upturn is observed in services (+3.1 pts), and more particularly, retail sales (+10 pts).

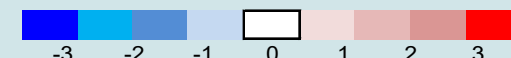
The consumer price index (CPI) rose 3.3% year-on-year in September on a harmonised basis (3.5% for the national measure), i.e. the third consecutive month of increase. Deflation in the energy component remains significant (-14.0% y/y), but its magnitude will decrease significantly in the coming months, before returning to positive territory, due to the current rise in oil prices and unfavourable base effects. Inflation in most major food items (eggs, milk, fresh vegetables) remains above 10% y/y; despite its small weight in the CPI basket – only 0.5% – olive oil, for example, continues to record impressive price increases (+41.9% y/y) and thus contributed 0.22 percentage points to headline inflation in September. Inflation in services has stabilised at a high level (4.7% y/y).

Job creation slowed significantly this summer compared to the previous quarter (+15,651 net creations per month on average in Q3 after +52,196 in Q2), but the labour market has been able to withstand the interest rate shock and the slowdown in activity in the euro zone up until now. This job resilience should support household consumption, in addition to likely new government measures to protect purchasing power. While some decisions have already been announced in the 2024 budget plan, sent to the European Commission on 15 October (rise in retirement pensions, 2% increase in public service remuneration), others may be added once the new government is in place, which may, however, take some time.

Guillaume Derrien (completed on 16 October 2023)

## Spain: economic indicators monthly changes

	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23
Business climate - manufacturing	0.4	0.0	0.3	0.4	0.2	0.5	0.6	0.2	-0.1	-0.2	0.1	-0.1
Business climate - construction	1.3	1.2	1.4	0.4	1.2	0.9	1.2	1.2	1.2	1.2	0.7	0.8
Business climate - services	0.1	0.3	0.2	0.6	0.5	0.4	0.6	0.6	0.6	0.6	0.6	0.6
PMI manufacturing new export orders	-1.9	-1.7	-1.4	-0.7	-0.1	-0.2	-0.6	-0.9	-0.8	-1.3	-1.4	-0.4
PMI Composite - e	-0.1	0.0	0.3	0.0	0.4	0.7	1.1	0.9	0.6	0.5	0.4	0.3
Consumer confidence	-1.4	-1.1	-0.8	-0.6	-0.5	-0.8	-0.4	-0.4	0.0	0.4	0.1	-0.4
Industrial production	0.4	0.0	0.1	0.1	0.1	0.6	-0.1	0.0	-0.4	-0.2	-0.4	
Retail sales	1.3	0.8	1.6	2.1	1.7	2.1	1.8	1.7	1.5	1.6	1.3	
Exports	0.7	1.4	0.8	0.8	0.3	0.9	-1.0	-0.8	-0.7	-0.9	-1.3	
HICP	2.4	2.1	1.5	1.7	1.7	0.4	0.7	0.3	-0.2	0.0	0.1	0.5
Core HICP	2.8	2.4	2.4	3.2	3.2	2.7	2.2	1.9	1.8	2.4	2.3	1.9
Employment	0.6	0.5	0.4	0.4	0.4	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Wage	1.6	1.8	2.0	0.8	0.5	0.6	0.6	0.7	0.6	0.6	0.6	0.6
Unemployment Rate	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.0



The indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value.  
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

## GDP growth

Actual		Carry-over		Forecast		Annual forecasts (y/y)			
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0.5	0.5	0.6	0.5	1.2	0.3	0.2	5.8	2.2	1.5

Source: Refinitiv, BNP Paribas



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